

AR05

Chipman Mining & Energy Corp. Ltd. 1980

CHIPMAN

MINING AND ENERGY CORPORATION LTD.



1980
ANNUAL REPORT

Chipman Mining and Energy Corporation Ltd. is a Canadian company incorporated on June 1, 1970. From 1972 to 1978 the company was essentially inactive, when an agreement was negotiated, whereby Inn River Resources Ltd. purchased the controlling interest.

Following the appropriate application and approvals, the company shares were listed on the Alberta Stock Exchange (Calgary) on April 14, 1979. Trading symbol is CML.

Chipman Mining and Energy Corporation Ltd. drilled a prospect in late 1979 in the Golden Lake area near Maidstone, Saskatchewan, which resulted in six producing oil wells.

Chipman Mining and Energy Corporation Ltd. is actively engaged in petroleum exploration in Western Canada.

In the past year Chipman Mining and Energy Corporation Ltd. has expanded its exploration activities into the U.S.A. For this purpose, steps were taken to acquire a Utah based U.S. company "Cimarron Petroleum Corporation" which owns oil and gas prospects in the State of Montana.

To better serve the needs of our U.S. based shareholders, steps have been taken to have Chipman Mining and Energy Corporation Ltd. common shares listed initially over the counter by Blue Sky Listing and ultimately through NASDAQ.

Letter to Shareholders

On behalf of the Board of Directors, we are pleased to present the annual report of your company for the year ended October 31, 1980.

The past year has been a successful year for your company in many areas.

The oilfield in the Maidstone area of Saskatchewan, discovered and developed in late 1979, has produced crude oil at a steady rate. This production established a solid base and cash flow for your company. The revenues and earnings have greatly improved.

Your company recently announced the proposed takeover of Cimarron Petroleum Corporation, a Utah, U.S.A. company with land interests in Montana. Cimarron Petroleum Corporation is to be a wholly owned U.S. subsidiary. Other land interests in the U.S.A. and Canada are being actively pursued. Steps are being taken to evaluate the acquired prospects for development purposes.

The Directors wish to express their gratitude to the staff, to our consultants, to our shareholders, to the banking, financial and brokerage community, and to all who have helped to make the past year such a success.

Submitted on the behalf of the Board.

C.M. Tirkanits,
President

Calgary, Alberta
February 2, 1981

Petroleum Exploration, Development and Production

Western Canada

Maidstone, Saskatchewan

In the Maidstone area, your company purchased in 1979 through a government land sale a 320 acre lease.

Your company's interest in this lease is 100%.

The subsequent drilling in late 1979 resulted in the completion of eight wells. Six wells are in production, the other two wells are under evaluation.

The production in the first year of operations was approximately 5886 M³ or about 37,000 barrels of oil, with an approximate value of half a million dollars.

An independent geologist's report dated October 26, 1979, indicated four producing zones of which two were recommended for production. The total estimated oil in place in the two zones is about 9,191,235 barrels of which about 2,757,000 barrels are recoverable. This recoverable oil has an estimated value of \$40,000,000 calculated at today's official price; the spot market value would be over one hundred million dollars.

Chantan Properties, Saskatchewan

An option was exercised on 2,240 acres. This option was later revoked when a breach of a condition of a contract affected the viability of the properties. Your company recovered the downpayment of \$200,000 in settlement of a lawsuit based on breach of contract conditions.

United States

Your company conditionally acquired during the year 1980 the full control of Cimarron Petroleum Corporation, a private Utah corporation, with a 2,120 acre lease in the State of Montana.

Cimarron Petroleum Corporation's interest in this lease is 97%.

It is intended to proceed with geological and engineering feasibility studies to ascertain the potential of the prospects for development purposes.

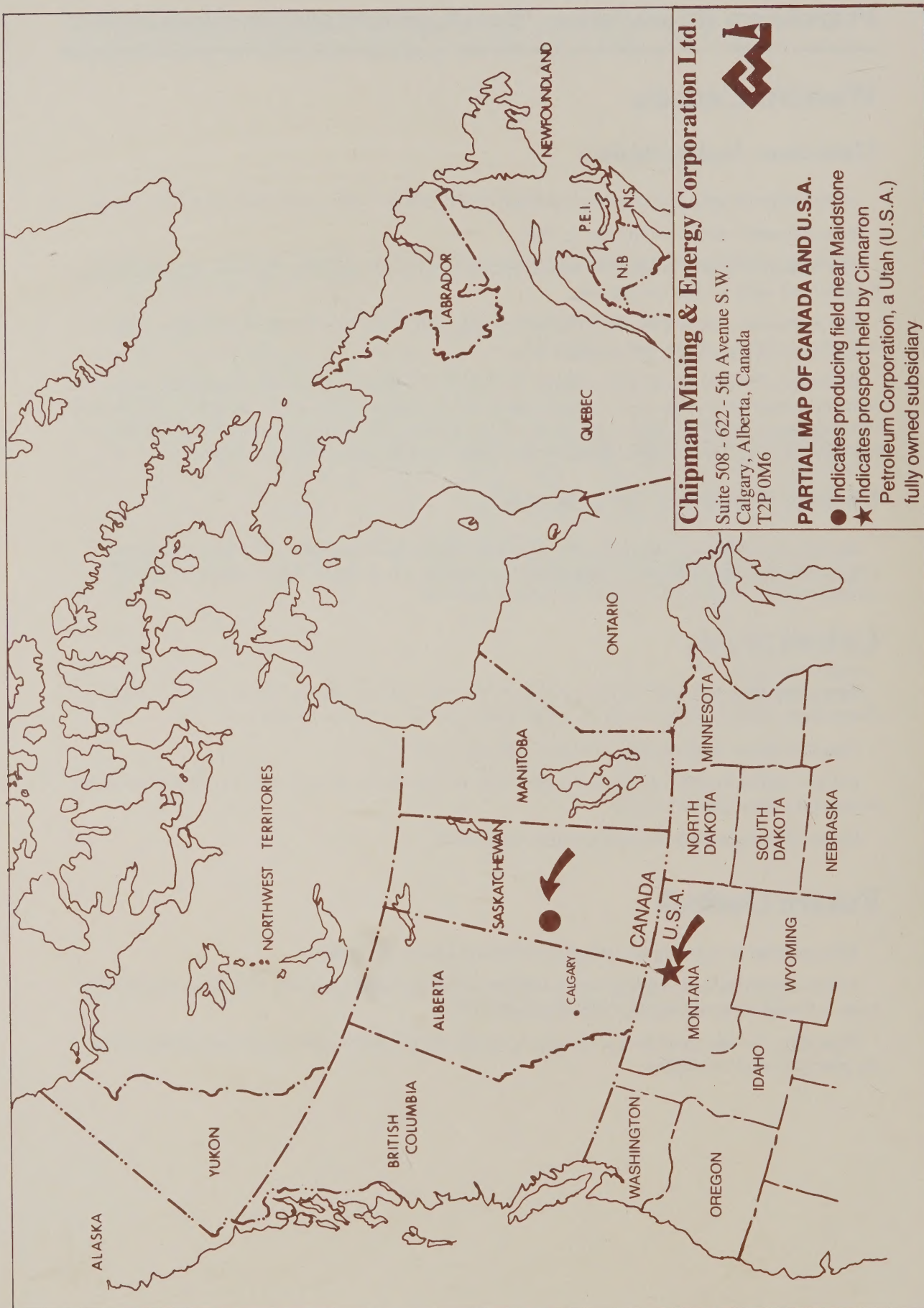
Further oil and gas leases are presently under negotiation.

Future Outlook

Your company is exploring new prospects in Western Canada and Ontario.

Your management is actively negotiating additional oil and gas prospects in the United States and proposes to do so through its newly acquired subsidiary in the U.S.A.

Depending on market conditions your company now has the flexibility to develop prospects in areas where the potential returns are highest.



Chipman Mining & Energy Corporation Ltd.

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Calgary, Alberta, Canada
T2P 0M6



PARTIAL MAP OF CANADA AND U.S.A.

- Indicates producing field near Maidstone
- ★ Indicates prospect held by Cimarron Petroleum Corporation, a Utah (U.S.A.) fully owned subsidiary

Highlights

Financial

	Oct. 31, 1980	Oct. 31, 1979 Restated
Revenues	\$538,683	\$ 11,397
Net Earnings (Loss)	\$278,067	\$(360,489)
Per Share (cents)	7	(10)
Cash Flow from Operations	\$192,002	\$ (74,681)
Per Share (cents)	5	(2)
Working Capital (Deficiency)	\$ 29,989	\$(602,363)
Debt to Total Assets (%)	55	91

Operating

Net Crude Oil Produced (bbls)	37,000	—
Total Recoverable Oil Reserves (bbls) (Maidstone, Saskatchewan)	2,720,000	2,757,000

The dramatic increase in revenues from \$11,397 to \$538,683 clearly shows that the company had a successful 1980 year.

The current year's net earnings was \$278,067. This represents an improvement over the net loss of \$360,489 in the previous year.

The earnings per share jumped from a (10¢) loss per share in 1979 to a 7¢ earning per share in 1980.

In other areas, the cash flow from operations increased by \$266,683 and the working capital position improved by \$632,352.

These results are accompanied by a very significant reduction in the ratio of total debt to total assets from 91% to 55%.

Auditors' Report

To the Shareholders of
Chipman Mining and Energy Corporation Ltd.

We have examined the consolidated balance sheet of Chipman Mining and Energy Corporation Ltd. as at October 31, 1980 and the consolidated statements of earnings and deficit, and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at October 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Campbell Sharp.

Calgary, Alberta
December 8, 1980

Chartered Accountants

Chipman Mining and Energy Corporation Ltd.
(Incorporated under the laws of Quebec)

Consolidated Balance Sheet

October 31, 1980

Assets		
	1980	1979 Restated
Current		
Cash and term deposits	28,672	89,762
Accounts receivable	80,218	1,066
Loan receivable (note 2)	72,116	—
Inventory	20,700	—
Deposits	10,000	—
Prepaid Expenses	8,932	5,050
Due from shareholders	2,038	—
	222,676	95,878
Investment, Properties and Equipment (note 3)	976,742	989,398
Deposit on Petroleum Property Purchase Agreement	—	200,000
	<u>\$1,199,418</u>	<u>\$1,285,276</u>
Liabilities		
Current		
Accounts payable and accrued liabilities	55,797	693,241
Royalties payable	136,890	—
Due to shareholder	—	5,000
	192,687	698,241
Long-Term Debt (note 4)	467,883	476,254
	660,570	1,174,495
Shareholders' Equity		
Capital Stock (note 5)	1,944,131	1,794,131
Contributed Surplus	17,559	17,559
Deficit	(1,422,842)	(1,700,909)
	538,848	110,781
	<u>\$1,199,418</u>	<u>\$1,285,276</u>

On behalf of the Board

Director *Alana H. T. T.*

Director *[Signature]*

Chipman Mining and Energy Corporation Ltd.

Consolidated Statement of Earnings and Deficit
For the Year Ended October 31, 1980

	1980	1979 Restated
Revenue		
Production income	487,859	—
Royalties expenses	(161,890)	—
	325,969	—
Sale of production incentive credits	212,714	—
Interest	—	11,397
	538,683	11,397
Expenses		
Production	44,245	—
General and administrative		
- consulting and professional fees (note 6)	137,995	50,262
- other	87,259	35,816
Interest - current	49,009	—
- long-term	28,173	—
Depreciation and depletion	113,935	71,538
	460,616	157,616
Earnings (Loss) Before Extraordinary Item	78,067	(146,219)
Extraordinary Item		
Gain on forgiveness of long-term debt (note 7)	200,000	—
Loss on transfer of assets	—	(214,270)
Net Earnings (Loss) For The Year	278,067	(360,489)
Deficit, beginning of year		
As previously reported	(1,720,195)	(1,340,420)
Prior year's adjustment (note 8)	19,286	—
As restated	(1,700,909)	(1,340,420)
Deficit, end of year	<u><u>\$ (1,422,842)</u></u>	<u><u>\$ (1,700,909)</u></u>
Earnings (Loss) Per Share (note 9)		
Earnings (loss) before extraordinary item	\$0.02	\$(0.04)
Net earnings (loss)	\$0.07	\$(0.10)

Consolidated Statement of Changes in Financial Position

For the Year Ended October 31, 1980

	1980	1979 Restated
Working Capital Increased By		
Operations		
Earnings (loss) before extraordinary item	78,067	(146,219)
Items not affecting working capital		
Depreciation	63,935	71,538
Depletion	50,000	—
Working capital increased (decreased) by operations exclusive of extraordinary item of \$200,000 (1979 - \$214,270)	192,002	(74,681)
Long-term debt (net)	191,629	476,254
Issue of shares	150,000	257,000
Proceeds on sale of investments and oil and gas interests	—	122,193
Proceeds from deposit on petroleum and natural gas properties	200,000	—
	733,631	780,766
Working Capital Decreased By		
Expenditures		
Furniture and fixtures	2,903	—
Production equipment	44,258	238,460
Petroleum and natural gas properties	54,098	822,476
Sundry investments	20	—
Deposit on petroleum and natural gas properties	—	200,000
	101,279	1,260,936
Increase (Decrease) in Working Capital	632,352	(480,170)
Working Capital Deficiency, beginning of year	(602,363)	(122,193)
Working Capital (Deficiency), end of year	\$ 29,989	\$(602,363)

Notes To The Consolidated Financial Statements

October 31, 1980

1. Significant Accounting Policies

Principle of consolidation

The consolidated financial statements include the accounts of the company and its wholly owned subsidiary, Great Winetou Petroleum Limited.

Inventory

Crude oil inventory is valued at net realizable value as determined under terms of existing purchase agreements.

Oil and gas properties and depletion

The company follows the full cost method of accounting, under which all costs relating to the exploration and development of oil and gas reserves are capitalized, whether productive or non-productive. Depletion is computed on the total of all such costs by the unit of production method based upon the total estimated proven reserves of oil and gas. Saskatchewan production incentive credits are income if sold before they are earned, otherwise they are a reduction of petroleum and natural gas lease costs.

Depreciation

Declining balance depreciation is applied to write-off the cost of petroleum and natural gas production equipment and the furniture and fixtures over their estimated useful lives at the rates of thirty percent and twenty percent respectively.

Income taxes

The company follows the tax allocation method of accounting for income taxes. As at October 31, 1980 the company had approximately \$844,000 of deductible exploration and development expenses and \$213,000 of earned depletion deductions to be carried forward and applied to future taxable income.

2. Loan Receivable

The loan receivable due from an affiliated company bears no interest and is payable on or before May 30, 1981. It is secured by the deposit of 125,000 common shares of Chipman Mining and Energy Corporation Ltd. owned by the affiliated company.

3. Investment, Properties and Equipment

	1980	1979 (restated)
Petroleum and natural gas leases including exploration and development expenditures, at cost (notes 6 and 8)	876,574	822,476
Accumulated depletion	(50,000)	—
Petroleum and natural gas production equipment, at cost	282,718	238,460
Furniture and fixtures, at cost	2,903	—
Accumulated depreciation	(135,473)	(71,538)
Sundry investment, at cost	20	—
	<u>\$976,742</u>	<u>\$989,398</u>

4. Long-Term Debt

	1980	1979 (restated)
The bank production demand loan originally granted for \$550,000 is subject to a maximum three year term with full payout expected by April 30, 1983. The loan is secured by demand promissory notes, a registered assignment of book debts, inventory and proceeds of production, and bears interest at the bank prime lending rate plus 1½%. The loan is repayable out of future production proceeds and accordingly is not expected to require the use of existing working capital; therefore, no portion of the loan has been reclassified to current liabilities.	225,000	—
Advances from an affiliated company bearing interest at the rate of 10% with no repayment terms specified.	<u>242,883</u>	<u>476,254</u>
	<u>\$467,883</u>	<u>\$476,254</u>

5. Capital Stock

	1980	1979 (restated)
Authorized		
5,000,000 common shares with par value		
Issued		
3,869,160 common shares		
(1979 - 3,744,160)	<u>\$1,944,131</u>	<u>\$1,794,131</u>

Pursuant to an agreement, dated June 24, 1980, a private placement to an affiliated company of 125,000 common shares were issued for cash at \$1.20 per share.

During the current year an option was granted to a related party permitting 100,000 common shares to be purchased at an exercise price of \$1.50 per share and expiring on June 21, 1985.

6. Related Party Transactions

During the year payments of \$77,000 were made under terms of a contract with a related party to supply consulting services for the period December 1, 1979 to May 31, 1981 with a total consideration of \$150,000 and the granting of a stock option described in note 5.

Under the terms of a further ongoing contract payments of \$60,000 (1979 - \$45,000) were made to another related party.

7. Extraordinary Item

An affiliated company has forgiven \$200,000 of the company's long-term debt. The effect of the forgiveness is to eliminate losses carried forward for income tax purposes of \$89,000 and to reduce capital cost of depreciable property by \$111,000.

8. Prior Year's Adjustment

In the current fiscal period consulting fees of \$19,286, written off as expenses of the prior year, were capitalized retroactively as exploration costs.

9. Earnings (Loss) Per Share

Earnings (loss) per share figures are calculated using the weighted average number of shares outstanding during the period.

10. Subsequent Events

On November 24, 1980 the company signed an agreement that requires approval from various regulatory authorities (which approval has not yet been granted), to purchase all the issued common shares of Cimarron Petroleum Corporation for the following consideration:

- (a) the issue of 20,000 shares of capital stock of Chipman Mining and Energy Corporation Ltd.;
- (b) the granting of a stock option for the issue of 50,000 shares of capital stock of Chipman Mining and Energy Corporation Ltd. to a related party; and
- (c) \$30,000 cash.

Corporate Information

Officers:

C. M. Tirkanits, President
R. F. Rietveld, Vice President
Garnet M. Schulhauser, Secretary
N. M. Tirkanits, Treasurer

Directors:

R. F. Rietveld
Garnet M. Schulhauser
C. M. Tirkanits

Head Office

Chipman Mining and Energy Corporation Ltd.

#508, 622 - 5 Avenue South West
Calgary, Alberta T2P 0M6
Telex 03-827886
Telephone (403) 237-6447

Registrar and Transfer Agent

Crown Trust Company

Calgary, Alberta
Montreal, Quebec
Toronto, Ontario

Bankers

Toronto Dominion Bank

Toronto Dominion Square
317 - 7 Avenue South West
Calgary, Alberta T2P 2Y9

Auditors

Campbell, Sharp Chartered Accountants

Suncor Tower
601, 500 - 4 Avenue South West
Calgary, Alberta T2P 2V6

Legal Counsel

Burnet, Duckworth, Palmer

800 Royal Bank Building
Calgary, Alberta T2P 1C9

Stock Exchange Listing

Alberta Stock Exchange, Calgary

Symbol: CML

Subsidiary Company

Great Winetou Petroleum Limited
